Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–III • EXAMINATION – SUMMER • 2015

Subject Code: 2830502 **Date: 29-05-2015**

Subject Name: International Finance (IF)

Time: 14:30 pm – 17:30 pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 **(a)** Explain the difference between Domestic Financial Management and International Financial Management. **07**

(b) Explain various types of letter of credit. **07**

Q.2 **(a)** Describe the balance of payment identity and discuss its implications under fixed and flexible exchange rate regime. **07**

(b) What is Triangular arbitrage? What is the condition that would give rise to triangular arbitrage opportunity? **07**

OR

(b) Suppose the treasurer of Microsoft has an extra cash reserve of \$1,00,000,000 to invest for six months. The six month interest rate is 8 percent per annum in united states and 7 percent per annum in Germany. Currently, the spot exchange rate is €1.01 per dollar and the six month forward exchange rate is €0.99 per dollar. The treasurer of Microsoft does not wish to bear any exchange risk. Where should he or she invest to maximize the return? **07**

Q.3 **(a)** Write a note on : EXIM Bank **07**

(b) Explain Contingent Exposure and discuss the advantages of using currency options to manage this type of currency exposure. **07**

OR

Q.3 **(a)** Suppose that you hold a piece of land in the city of London that you may want to sell in one year. As a U.S resident, you are concerned with the dollar value of the land. Assume that if the British economy booms in future, the land will be worth £2,000, and one British pound will be worth \$1.40. If the British economy slows down, on the other hand, the land will be worth less,say,£1,500,but the pound will be stronger,say,\$1.50/£. You feel that the British economy will experience a boom with 60 percent probability and slowdown with a 40 percent probability. **07**

a) Estimate your exposure (b) to exchange risk.
b) Compute the variance of the dollar value of your property attributable to exchange rate uncertainty.

(b) Write a note on: International money market. **07**

Q.4 **(a)** Describe the difference between Eurobonds and foreign bonds. Also discuss about international bond market credit ratings. **07**

(b) Explain Bilateral and Multilateral Netting as a part of multinational cash management. **07**

OR

Q.4 **(a)** Write a note on :FCA,FAS, and FOB **07**

Q.4 **(b)** What are the factors responsible for the recent surge in the international portfolio investment? **07**

Q.5 **(a)** Discuss the different ways political events in a host country may affect local operations of a MNC **07**

(b) Explain Interbank deals with suitable examples. **07**

OR

Q.5 **(a)** Write difference between: **07**

1) currency swap and interest rate swap

2) Forward contract and Futures Contract

(b) You are given the following $ Quotes: **07**

Spot Rs 40.50/40.60

3 months forward 020/010

4 months forward 025/030

Calculate percentage of discount /premium of Dollars on 3 months and 4 months forward rates. Assume that you are buying $.

****